



## ENERGY RISK MANAGEMENT

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### NATURAL GAS & POWER MARKET REPORT FOR MAY 17, 2011

#### NATURAL GAS MARKET NEWS

##### North America

A BP Plc and ConocoPhillips joint venture known as Denali is scrapping an Alaskan natural gas pipeline project due to weak demand. The company, which began working on the project in 2008, estimated it had so far devoted \$165 million and 760,000 man-hours to the pipeline project that would have transported gas from the Alaska North Slope. It was unable to secure financial commitments from potential shippers. Meanwhile TransCanada said it remains committed to offering to sell North Slope gas producers a stake in its proposed \$40 billion natural gas pipeline even with the demise of the Denali project.

##### Generation Outages

**FRCC** – NextEra’s 693 Mw Turkey Point #4 unit ramped up to 41% power this morning, up 37% from Monday.

**SERC** – Southern’s 883 Mw Hatch #2 nuclear unit was at 88% power on Tuesday up 33% from Monday.

**ERCOT** – TMPA restarted its 470 Mw Gibbons Creek coal fired power unit late Monday after the unit had tripped off line

**SPP** – Entergy’s 1176 Mw Waterford #3 nuclear plant ramped up to full power early Tuesday, up 25% from yesterday.

**The NRC reported this morning that some 74,831 Mw of nuclear generation was online, up 0.99% from yesterday and 12.01% below levels recorded a year ago.**

The Pennsylvania Department of Environmental Protection has fined Chesapeake Energy a record fine of \$900,000 for contaminating water supplies in Bradford County. The regulator said improper casing and cementing led to natural gas seeping into groundwater and contaminating 16 families drinking water in the state in 2010. The contamination though was from shallow, non-shale drilling sites. The regulator also fined the company another \$188,000 for a fire in February that injured three workers. The company, one of the largest shale gas producers in the state, said it will pay the fines and has

improved its cementing and casing practices since the investigation.

The Environmental group, American Rivers said today that natural gas

development in the Marcellus Shale poses a danger to the Susquehanna River and its tributaries, which supply almost half of the water resources for the Chesapeake Bay. The group which publishes an annual list of the country’s most endangered rivers each year, has estimated the Susquehanna River at the highest risk because of the dangers from contaminated water from gas drilling operations.

Natural Gas Cash Market						
ICE Next Day Cash Market						
	Volume	Avg	Change	Basis	Change	Basis 5-Day
<u>Location</u>	<u>Traded</u>	<u>Price</u>		(As of 12:30 PM)		<u>Moving Avg</u>
Henry Hub	850,200	\$4.246	\$0.037	\$0.054	\$0.130	(\$0.027)
Chicago City Gate	670,600	\$4.390	(\$0.013)	\$0.198	\$0.095	\$0.085
NGPL- TX/OK	742,600	\$4.132	\$0.029	(\$0.060)	\$0.137	(\$0.149)
SoCal	657,400	\$4.283	\$0.035	\$0.091	\$0.143	(\$0.023)
PG&E Citygate	1,365,800	\$4.461	\$0.013	\$0.269	\$0.121	\$0.149
Dominion-South	425,300	\$4.395	(\$0.003)	\$0.203	\$0.105	\$0.100
USTrade Weighted	21,156,900	\$4.257	\$0.022	\$0.065	\$0.13	(\$0.027)

The group called on the states in the region and the Susquehanna River Basin Commission to impose a “complete moratorium on water withdrawals and hydraulic fracturing until there are comprehensive regulations in place for natural gas development or they will put public health and drinking water at risk.”

Private weather forecasting service MDA EarthSat said it looks for temperatures across the nation to average 14.5% cooler this summer than last summer. Meanwhile Citibank analysts released their 2011 Hurricane Season Outlook today and it calls for only 12 named storms, 1 more than normal and seven storms less than were recorded in the 2010 season. The bank sees seven of these storms becoming a hurricane and three reaching Category 3 or higher. The forecasters also noted that the hurricane risk in the western Gulf will be slightly below average as steering currents appear will push the storms towards the East Coast. Forecasters also noted that while tropical Atlantic surface water temperatures are above the 30-year average, they are well below last season temperature levels in most areas. In addition with computer models suggesting the current La Nina event will continue to weaken and the potential of a weak El Nino to form by early fall should help dampen hurricane potential versus a year ago. Forecasters noted though that given the increased thunderstorm activity in the eastern Atlantic and in Africa should mean less atmospheric dust and thus the improve the potential for more hurricane activity during the early months of the hurricane season.

**International**

Germany’s economic and foreign trade statistics office BAFA said the country’s gas import bill totaled 7.7 billion euros or \$10.9 billion in January through March, up 32.7% on the year. it imported 1,143,678 terajoules of gas in the first three months of the year, up 5% on the year.

Forecast	Named Storms	Hurricanes	Major Hurricanes	More (Less) Than 2010 Season
<i>Citi</i>	12	7	3	(7)
Dr. Gray / Colorado State	16	9	5	(3)
CWG / Matt Rogers	16	10	4	(3)
MDA / EarthSat	16	8	5	(3)
WSI	15	8	4	(4)
Historical Average	11.3	6.2	2.7	19

OMV insisted the Nabucco gas pipeline would be completed despite delays and cost overruns. The pipeline, which would carry Caspian gas to Europe and ease its reliance on Russian supplies, is expected to start operation in 2017, two years later than originally planned. Nabucco intends to bring up to 31 billion cubic meters of gas annually from the Caspian region to the Austrian hub.

Royal Dutch Shell Plc and Koninklijke Vopak NV plan to build a new liquefied natural gas terminal in the Fos-Lavera port near Marseille in southern France. The new terminal would have a capacity of 8 billion cubic meters/year. If the project is approved, the terminal would be operational in late 2016.

The Dutch government approved the Bergermeer gas storage project, despite opposition from locals over safety concerns. The gas storage facility would store up to 4.1 million cubic meters of gas when completed and would be operated by Abu Dhabi National Energy Co. Bergermeer’s gas storage operations are expected to start in 2013 with full commercial operations in 2014.

Poland’s Gaz-System said the country is seeking to connect a planned coastal LNG terminal with its southern neighbors and beyond through a series of links called the North-South corridor. The project, aimed at diversifying natural gas supplies to Poland, calls for expansion of links with Czech Republic and a new link with Slovakia as well as laying about 500 km of gas pipeline across western Poland. The project should be completed at the end of 2016 or in 2017.

Chevron Corp took delivery of the newly built Atwood Osprey drilling rig, which is scheduled to drill a number of development wells for the Gorgon liquefied natural gas project in Western Australia. Earlier this month, Chevron said the Gorgon project is progressing well and first LNG is still scheduled to be shipped in 2014.

Japan's imports of liquefied natural gas in April increased by 23% on the year to 6.65 million metric tons after the earthquake and tsunami in March shutdown several of the country's nuclear plants. Overall Asian LNG demand increased by 20% on the year due in part to economic recovery and growth. Ship tracking service Waterborne estimated that LNG import to Japan are likely to continue to increase in 2011 following recent announcements from the Japanese government to shutdown a number of nuclear plants that could be at risk for a major earthquake or tsunami.

ConocoPhillips and its partner Karoon Gas Australia have said they are looking to start drilling in the Browse Basin off the coast of northwest Australia in the second or third quarter to fully evaluate the potential of this recent natural gas discovery. Conoco is seeking governmental approval to drill up to eight evaluation wells over the next two years.

### **ELECTRIC MARKET NEWS**

The U.S. Northwest River Forecast Center said today that it projects water runoff at the Dalles Dam will be 132% of normal for the April – September period, some 9% higher than last week's forecast and well above last year's level of just 84% of normal.

Carbon dioxide emissions from companies in the European Union's carbon market rose 3.2% in 2010 as its economy recovered. Emissions in 2009 fell by 11.6% due to the economic contractions. Meanwhile Britain on Tuesday committed to cutting its greenhouse gas emissions by half by 2025 but made the binding target conditional on the European Union taking similar climate action. The country's emissions in 2010 were 25% below 1990 levels.

### **ECONOMIC NEWS**

The US Commerce Department said US home construction fell unexpectedly in April, an indication that the troubled sector would remain a drag on the economic recovery. Construction of homes and apartments in April fell by 10.6% on the month to a seasonally adjusted annual rate of 523,000. March's figures were revised upward to an annual rate of 585,000. It reported that new building permits fell by 4% on the month to an annual rate of 551,000.

A Federal Reserve report said overall US industrial production was relatively flat in April. It said factory production fell 0.4% as the tsunami and earthquake that hit Japan and disrupted the auto business. Excluding cars and parts, US factory production increased by 0.2% in April. The Fed data showed total motor vehicle assemblies declined from an annual rate of 9 million units in March to 7.9 million units in April, mainly because of parts shortages that resulted from the earthquake.

The Institute for Supply Management said the US manufacturing and services sectors would continue to grow this year with revenue in both sectors expected to increase. Manufacturing revenue is expected to increase 7.5% in 2011 from 2010 while revenue in the services sector is expected to increase 2.1%.

According to the Bank for International Settlements, the gross notional volume of privately traded or over-the-counter, derivatives outstanding globally increased 3.2% in the second half of 2010 to \$601 trillion.

### **MARKET COMMENTARY**

The natural gas market early this morning failed to break above yesterday's highs and it appears to have prompted some long liquidation as a result. As the floor session started additional selling appears to have come into the market on news of more moderate summer temperatures and hurricane forecast as well as disappointing economic reports. Additional selling pressure was created as the trend line of the prior two days was breached and as a result prices fell another nine cents before finding support and stabilizing. While prices moved basically in a sideways pattern from mid morning through the end

of the day the June contract settled down on the session by 13.6 cents and at its lowest level since May 11<sup>th</sup>.

With the Northwest River Forecast Center today calling for even great water flows across the Pacific Northwest and recent moderate hurricane and temperature forecasts this market does not appear to have the underlying support for a major move upward. But the market might get another supporting storage report on Thursday as overall inventories remain below last year and the five year seasonal levels and may gain a technical boost by some technical indicators such the daily stochastics which appear on the verge of rolling over and pointing higher. We would look for some support at \$4.15-\$4.13 followed by \$4.109, \$4.056 and \$3.99. Minor resistance we see at \$4.221 followed by \$4.339-\$4.351, \$4.419 and \$4.492. More distant resistance we see at \$4.556 and \$4.729.

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